

**LEGISLATIVE SERVICES AGENCY
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FISCAL IMPACT STATEMENT

LS 6790

BILL NUMBER: HB 1081

NOTE PREPARED: Dec 15, 2004

BILL AMENDED:

SUBJECT: Inheritance Tax.

FIRST AUTHOR: Rep. Murphy

FIRST SPONSOR:

BILL STATUS: As Introduced

FUNDS AFFECTED: X GENERAL
X DEDICATED
FEDERAL

IMPACT: State & Local

Summary of Legislation: The bill phases out the Inheritance Tax by giving an increasing credit against the Inheritance Tax due. The bill also provides that the Inheritance Tax does not apply to the transfer of property interests from a person who dies after June 30, 2009. It also makes technical corrections.

Effective Date: July 1, 2005.

Summary of Net State Impact: Under the bill the state will experience a progressively larger reduction in Inheritance Tax revenue from FY 2007 to FY 2011 when the state will no longer receive revenue from the tax. The bill is also expected to increase state General Fund expenditures on county Inheritance Tax replacement. The impact of the bill on state revenues and expenditures is summarized in the table below.

Fiscal Year	Inheritance Tax Revenues	Add'l. State Expenditures for County Replacement	Net Increase (Decrease)
2007	(\$24 M)	(\$0.2 M)	(\$24.2 M)
2008	(48 M)	(1.3 M)	(49.3 M)
2009	(72 M)	(3.2 M)	(75.2 M)
2010	(96 M)	(5.3 M)	(101.3 M)
2011 and after	<u>(120 M)</u>	(7.4 M)	(127.4 M)

Explanation of State Expenditures: *Department of State Revenue:* If the Inheritance Tax is repealed, there could be a savings to the state from a reduction in staff of the Inheritance Tax Section of the Department of State Revenue. The November 4, 2004, state staffing table indicates that the Inheritance Tax Division has 12 full-time employees with an annual salary of about \$335,000. The Division also has 2 vacant full-time positions. Since staff will be needed to process returns during the phaseout of the Inheritance Tax, a specific savings due to staff reductions could not be estimated.

County Inheritance Tax Replacement: The bill could increase expenditures from the state General Fund for county Inheritance Tax replacement beginning in FY 2007 as specified in the table below. These calculations represent upper bounds, and necessary replacement amounts may vary depending on whether and by how much each county's base Inheritance Tax revenue differs from the amount guaranteed under current statute. The impact is estimated to total approximately \$7.4 M annually beginning in FY 2011 once revenue from the Inheritance Tax comes to an end.

Fiscal Year	Add'l. State Expenditures for County Replacement
2007	(\$0.2 M)
2008	(1.3 M)
2009	(3.2 M)
2010	(5.3 M)
2011 and after	(7.4 M)

Explanation of State Revenues: *Summary:* The bill would lead to progressively larger reductions in Inheritance Tax revenues from FY 2007 through FY 2011 when the tax is eliminated and no longer generates revenue. The revenue loss from the phaseout is shown in the table below.

Fiscal Year	Inheritance Tax Revenues
2007	(\$24 M)
2008	(48 M)
2009	(72 M)
2010	(96 M)
2011 and after	(120 M)

Background: The bill phases out the Inheritance Tax over a five-year period by providing an increasing credit against the transferee's Inheritance Tax liability. The credit would apply to transfers made by persons who die within the dates specified in the following table. Since the Inheritance Tax must be paid within 12 months after the decedent's death (within 9 months to receive the 5% early payment discount), the bulk of the impact of the first year's credit (equal to 20%) would not be experienced until FY 2007.

Inheritance Tax Credit	Transfers made from persons dying...
20%	After June 30, 2005, and before July 1, 2006
40%	After June 30, 2006, and before July 1, 2007
60%	After June 30, 2007, and before July 1, 2008
80%	After June 30, 2008, and before July 1, 2009
100%	After June 30, 2009

The estimated impact of the phaseout of the Inheritance Tax is based on the Revenue Technical Committee's FY 2007 forecast (published December 14, 2004). This forecast estimates FY 2007 Inheritance Tax at \$120.0 M. The estimated revenue loss from the exemption assumes that Inheritance Tax revenues would remain relatively constant after FY 2007 absent the phaseout.

Explanation of Local Expenditures:

Explanation of Local Revenues: The phaseout of the Inheritance Tax could result in an annual revenue loss to counties beginning in FY 2007.

Fiscal Year	Local Share of Inheritance Tax Revenues	State Expenditures for County Replacement	Net Increase (Decrease)
2007	(\$2.0 M)	\$0.3 M	(\$1.7 M)
2008	(4.1 M)	1.4 M	(2.7 M)
2009	(6.2 M)	3.3 M	(2.9 M)
2010	(8.3 M)	5.4 M	(2.9 M)
2011 and after	(10.3 M)	7.4 M	(2.9 M)

Counties retain 8% of the Inheritance Tax collected on transfers made by Indiana residents. Counties are guaranteed a statutorily determined amount as determined by the replacement provision established by P.L. 254-1997. The replacement provision was established to replace county Inheritance Tax revenue lost when the Class A exemption was increased on July 1, 1997. The replacement provision guarantees that each county receives Inheritance Tax revenue equal to the five-year annual average amount of Inheritance Tax received by that county from FY 1991 to FY 1997 excluding the highest and lowest years.

Currently, most counties retain more in Inheritance Tax revenues than is guaranteed under the replacement procedure. From FY 2000 to FY 2003, counties exceeded their guarantee amounts by an average of \$4.7 M annually with shortages subject to replacement averaging about \$200,000 per year. The total annual guarantee to counties is \$7.4 M. As a result, some reductions in county revenue exceeding the guarantee amount will not be replaced by the state.

A copy of the spreadsheet showing the amount of Inheritance Tax replacement guaranteed to each county under P.L. 254-1997 is available from the Office of Fiscal and Management Analysis.

State Agencies Affected: Department of State Revenue.

Local Agencies Affected: Counties.

Information Sources: State Revenue Forecast (December 14, 2004).

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